Management Report

for

Independent School District No. 197
West St. Paul – Mendota Heights – Eagan, Minnesota

June 30, 2024

LB | CARLSON
Certified Public Accountants Business Consultants

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To the School Board and Management of
Independent School District No. 197
West St. Paul – Mendota Heights – Eagan, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 197's (the District) financial statements for the year ended June 30, 2024. We have organized this report into the following sections:

- Audit Summary
- Financial Trends in Public Education in Minnesota
- Financial Trends of Your District
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those who have responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

LB Carlson, LLP

LB CARLSON, LLP
Minneapolis, Minnesota

October 9, 2025

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS* (UNIFORM GUIDANCE)

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

The District's internal controls over financial reporting were not adequate to ensure that the District's financial records and year-end closing process were completed in a timely manner. As a result, the District was unable to comply with state and federal deadlines for the submission of audited financial data and annual financial statements.

AUDIT OPINIONS AND FINDINGS

Based on our audit of the District's basic financial statements for the year ended June 30, 2024:

- We have issued unmodified opinions on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of new Governmental Accounting Standards Board (GASB) authoritative literature, which changed the requirements for accounting for groups of similar capital assets this year. Our opinion was not modified with respect to this matter.

- We reported five material weaknesses involving the District's internal controls over financial reporting:

  ### Material Audit Adjustment

  During our audit, we proposed audit adjustments necessary to record additional cash and self-insured medical plan activity by the District that were considered material to the financial statements, which had not been recorded properly in accordance with accounting principles generally accepted in the United States of America, prior to our audit procedures detecting the misstatements. Auditing standards consider the identification by the auditor of a potentially material misstatement in the financial statements to be a material weakness in the related internal controls.

Regulatory Reporting Deadlines

For the year ended June 30, 2024, the District's internal controls over financial reporting were not adequate to ensure that the District's financial records and year-end closing process were completed in a timely manner. As a result, the District was unable to comply with state and federal deadlines for the submission of audited financial data and annual financial statements.

Accuracy of Cash Reconciliations

During our audit, we noted that the monthly cash reconciliations prepared by the District's staff were not being performed correctly due to journal entry errors. The effectiveness of some internal controls were diminished, due to a lack of correctness in completing this important control procedure.

Controls Over Self-Insured Plan Expenses

During our audit, we noted that the control procedures such as gathering documentation of self-insured plan expenses, reviewing invoices for approval, and validating expenses are from plan participants were not being performed. The effectiveness of some internal controls were diminished, due to a lack of completion of these important control procedures.

Segregation of Duties

Due to the limited size of the District's office staff, the District has limited segregation of duties in several areas. These areas include cash receipts, cash disbursements, bank reconciliations, investment accounting, and payroll.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*

- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.

- We reported one significant deficiency and one reportable noncompliance in the District's controls over compliance and related compliance requirements for major federal programs.

Suspension and Debarment Requirements

During our audit, we noted the District did not have sufficient controls in place within its child nutrition cluster to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds.

Federal Reporting Deadline

Federal reporting standards require the District's audited Schedule of Expenditures Federal Awards (SEFA) and federal reporting package to be submitted to the federal audit clearinghouse within the earlier of 30 calendar days after the receipt of the auditor's report(s), or 9 months after the end of the audit period. These submissions were not completed on a timely basis.

- We reported three findings based on our testing of the District's compliance with Minnesota laws and regulations:

  Unclaimed Property Report

  Minnesota Statutes require unclaimed property held for more than three years (or one year for unpaid compensation) to be reported and paid or delivered to the state Commissioner of Commerce each year. This requirement was not met by the District for the current audit year.

  Outstanding Indebtedness Report

  Minnesota Statutes require the total amount of outstanding obligations and the purpose for which issued to be reported each year on or before February 1st. This requirement was not met by the District for the current audit year.

  Timely Submission of Audited Financial Statements

  Minnesota Statutes require that the District submit audited fund balance, revenue, and expenditure data to the Minnesota Department of Education (MDE) annually by November 30 and audited financial statements by December 31. The District did not meet the deadlines for submitting audited financial data and statements to the MDE for the fiscal year ended June 30, 2024.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the District's financial statements for the year ended June 30, 2024, we performed procedures to follow-up on any findings and recommendations that resulted from the prior year audit. The following finding was not issued as a finding in the current year:

- Timely Payment of Claims

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year ended June 30, 2024. However, the District implemented the following GASB guidance change during the year:

> As described in Note 1 of the notes to basic financial statements, the District implemented new GASB guidance related to capital assets during the fiscal year ended June 30, 2024. This new guidance requires governments to capitalize groups of similar assets if significant, even when individually they are below the government's capitalization threshold. This change resulted in a restatement, which increased beginning net position in the government-wide Statement of Activities by $2,136,761 in the current year.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for the current fiscal year is not finalized until after the District has closed its financial records. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies primarily described in GASB Nos. 68, 74, and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation and amortization of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

The District passed on recording technology subscription capital assets estimated at $237,538 in the government-wide financial statements and reducing prepaid items for technology subscriptions in the General Fund by $329,297 during the audit of the year ended June 30, 2024.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated October 9, 2025.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the pension and OPEB-related required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, the Schedule of Expenditures of Federal Awards and Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the financial statements, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and other district information, which accompany the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

FINANCIAL TRENDS IN PUBLIC EDUCATION IN MINNESOTA

This section provides some state-wide funding and financial trends in public education in Minnesota.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The Legislature approved a per pupil increase of $143 for fiscal 2025. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts.

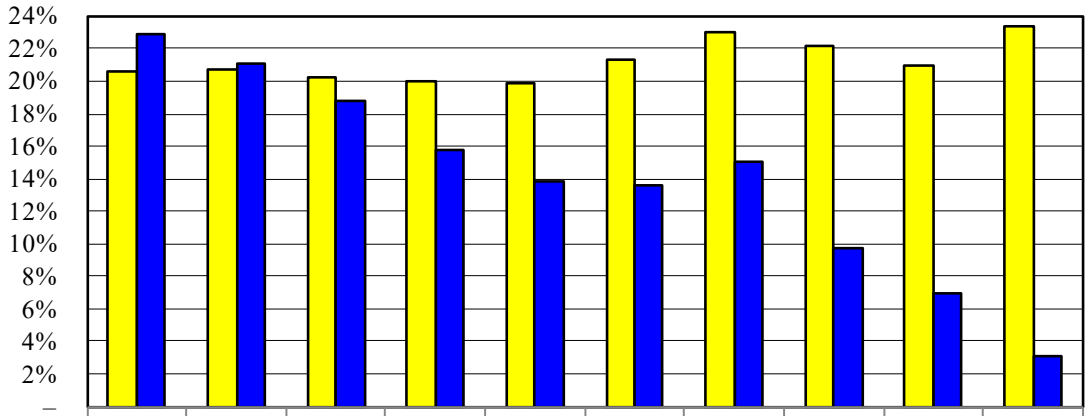
Fiscal Year Ended June 30,	Formula Allowance Amount	Formula Allowance Percent Increase
2015	$ 5,831	2.00 %
2016	$ 5,948	2.00 %
2017	$ 6,067	2.00 %
2018	$ 6,188	2.00 %
2019	$ 6,312	2.00 %
2020	$ 6,438	2.00 %
2021	$ 6,567	2.00 %
2022	$ 6,728	2.45 %
2023	$ 6,863	2.00 %
2024	$ 7,138	4.00 %
2025	$ 7,281	2.00 %

For fiscal 2026 and beyond, the actual increase will be equal to the Consumer Price Index-Urban (CPI-U), with a floor of 2.00 percent and a cap of 3.00 percent. CPI-U is determined based upon the prior two fourth-quarter totals. The inclusion of inflationary increases to this formula does not prevent future legislative increases from being approved.

STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unrestricted operating fund balance as a percentage of operating expenditures.

State-Wide Unrestricted Operating Fund Balance
as a Percentage of Operating Expenditures



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
State-Wide	20.6%	20.7%	20.3%	20.0%	19.9%	21.3%	23.0%	22.2%	21.0%	23.4%
ISD No. 197	22.9%	21.1%	18.8%	15.8%	13.8%	13.6%	15.1%	9.7%	6.9%	3.1%

Note: State-wide information is not available for fiscal 2024.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

The average unrestricted fund balance as a percentage of operating expenditures maintained by Minnesota school districts has been relatively stable over the last decade, ranging from 20.6 percent at the end of fiscal 2015 to 21.0 percent at the end of fiscal 2023, with a slight uptick during the fiscal years impacted by the COVID-19 pandemic.

The District's unrestricted operating fund balance as a percentage of operating expenditures is estimated to be 3.1 percent at the end of the current year, as compared to 6.9 percent at the end of the prior year.

Having an appropriate fund balance is an important factor in assessing the District's financial health because a government, like any organization, requires a certain amount of equity to operate. It is important to review fund balance levels on an ongoing basis to ensure a sufficient equity reserve is available to support programs and cash flow of the District.

GOVERNMENTAL FUNDS REVENUE

The table below shows a comparison of governmental fund revenue per ADM received by Minnesota school districts and your district. Revenues for all governmental funds are included, except for the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. Other financing sources, such as proceeds from sales of capital assets, insurance recoveries, bond sales, loans, and interfund transfers, are also excluded.

Governmental Funds Revenue per Student (ADM) Served

	State-Wide		Metro Area		ISD No. 197		
	2022	2023	2022	2023	2022	2023	2024
General Fund							
Property taxes	$ 2,645	$ 2,760	$ 3,506	$ 3,704	$ 4,084	$ 3,890	$ 3,502
Other local sources	571	742	446	595	399	404	554
State	10,504	10,771	10,536	10,792	10,596	11,168	12,522
Federal	1,335	1,344	1,397	1,441	1,545	1,237	635
Total General Fund	15,055	15,617	15,885	16,532	16,624	16,699	17,213
Special revenue funds							
Food Service	803	676	770	649	801	694	883
Community Service	731	795	836	919	904	995	991
Debt Service Fund	1,508	1,579	1,537	1,595	1,833	1,881	1,853
Total revenue	$ 18,097	$ 18,667	$ 19,028	$ 19,695	$ 20,162	$ 20,269	$ 20,940
ADM served per MDE School District Profiles Report (current year estimated)					5,041	5,094	5,279

Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.

Source of state-wide and metro area data: School District Profiles Report published by the MDE

ADM used in the table above and on the following page are based on enrollments consistent with those used in the MDE School District Profiles Report, which include extended time ADM, and may differ from ADM reported in other tables. Changes in enrollment also impact comparisons in the table above and on the next page when revenue and expenditures are based on fixed costs, such as debt levies and principal and interest on outstanding indebtedness.

The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies, due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

The District earned $110,545,969 in the governmental funds reflected above in fiscal 2024, an increase of $7,304,016 (7.1 percent) from the prior year. Total revenue per ADM served increased by $671 per student, mostly in state sources which was up by $1,354 in general education, compensatory, and special education aid categories. These increases are offset by decreases in property taxes due to a reduction in the levy and in federal aid, mainly due to COVID-19-related stimulus grants that were fully spent in the prior year. Revenue in the Food Service Special Revenue Fund increased $189 per student mainly in state sources. This increase was from additional program funding provided by the Minnesota Legislature.

GOVERNMENTAL FUNDS EXPENDITURES

The following table reflects similar comparative data available from the MDE for all governmental funds expenditures, excluding the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. Other financing uses, such as bond refunding's and transfers, are also excluded.

Governmental Funds Expenditures per Student (ADM) Served

	State-Wide		Metro Area		ISD No. 197		
	2022	2023	2022	2023	2022	2023	2024
General Fund							
Administration and district support	$ 1,249	$ 1,300	$ 1,300	$ 1,320	$ 884	$ 911	$ 921
Elementary and secondary regular instruction	6,494	6,646	6,838	7,019	7,511	7,418	7,784
Vocational education instruction	210	224	191	198	123	118	56
Special education instruction	2,724	2,892	2,883	3,059	3,292	3,477	3,694
Community education instruction	–	–	–	–	12	13	17
Instructional support services	816	861	939	1,030	1,412	1,353	1,368
Pupil support services	1,429	1,553	1,558	1,712	1,822	1,930	1,973
Sites, buildings, and other	1,113	1,201	1,076	1,171	1,621	1,688	1,672
Total General Fund – noncapital	14,035	14,677	14,785	15,509	16,677	16,908	17,485
General Fund capital expenditures	876	960	897	959	409	110	318
Total General Fund	14,911	15,637	15,682	16,468	17,086	17,018	17,803
Special revenue funds							
Food Service	670	706	659	693	685	736	819
Community Service	689	763	774	865	887	963	976
Debt Service Fund	1,599	1,626	1,561	1,652	1,868	1,888	1,933
Total expenditures	$ 17,869	$ 18,732	$ 18,676	$ 19,678	$ 20,526	$ 20,605	$ 21,531
ADM served per MDE School District Profiles Report (current year estimated)					5,041	5,094	5,279

Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds.

Source of state-wide and metro area data: School District Profiles Report published by the MDE

Expenditure patterns also vary from district to district for various reasons. Factors affecting the comparison include the growth cycle or maturity of the District, average employee experience, availability of funding, population density, and even methods of allocating costs.

The District spent $113,654,146 in the governmental funds reflected above in fiscal 2024, an increase of $8,683,521 (8.3 percent) from the prior year. On a per student basis, this represents an increase of $926. General Fund operating expenditures, excluding capital, increased $577 per student, mainly in special education instruction ($217 per pupil) and elementary and secondary regular instruction ($366) for salaries and benefits related to increased staffing to meet program needs, contractual increases, and higher health insurance costs. General Fund capital expenditures increased ($208), mainly from more facility maintenance and technology-related projects in the current year.

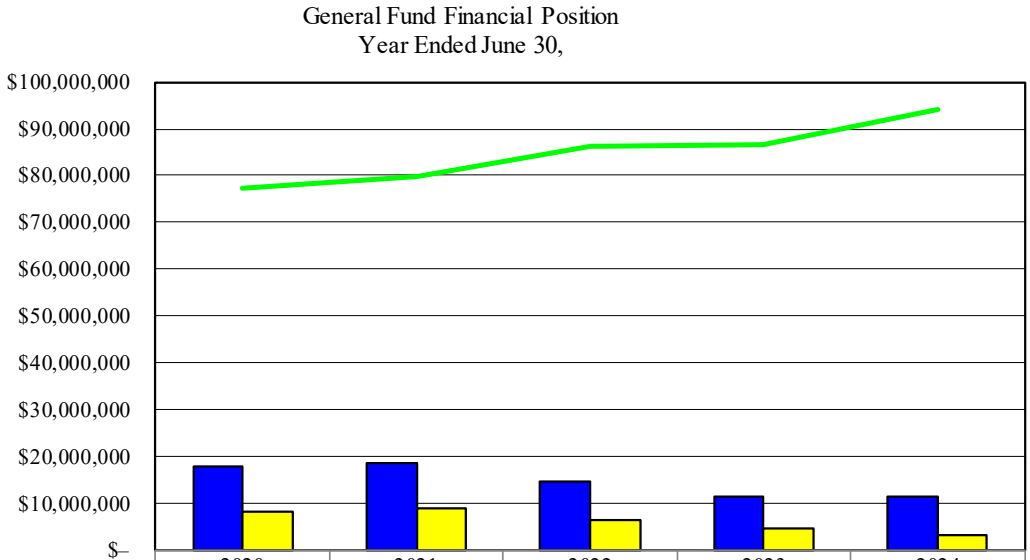
SUMMARY

District school boards and administrators continue to face significant financial challenges as they strive to provide a safe and effective learning environment for their students. Factors such as the sunset of large pandemic-related federal funding programs, state legislative funding changes and mandates, shifting student populations, tight labor markets, heightened safety concerns, increasing transportation costs, and other inflationary pressures continue to make it difficult to allocate limited resources amongst many competing demands.

FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash and investments balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.



	2020	2021	2022	2023	2024
Cash and Investments	$17,932,432	$18,511,808	$14,592,528	$11,564,228	$11,444,115
Unrestricted Fund Balance	$8,066,639	$9,042,136	$6,523,372	$4,588,965	$3,064,641
Expenditures	$77,414,890	$79,721,693	$86,136,009	$86,693,804	$93,974,882

The District ended fiscal year 2024 with a General Fund cash balance of $11,444,115 (net of borrowing and interfund receivables and payables), a decrease of $120,113 from the previous year. Unrestricted fund balance (consisting of any committed, assigned, or unassigned fund balances) at year-end totaled $3,064,641, a decrease of $1,723,629.

GENERAL FUND COMPONENTS OF FUND BALANCE

The following table presents the components of the General Fund's balance for the past five years:

	June 30,				
	2020	2021	2022	2023	2024
Nonspendable fund balances	$ 210,637	$ 458,167	$ 361,665	$ 342,409	$ 491,402
Restricted fund balances (1)	2,186,433	1,879,406	3,005,175	3,383,684	3,064,641
Unrestricted fund balances					
Assigned	–	–	1,088,076	377,604	–
Unassigned	8,066,639	9,042,136	5,435,296	4,211,361	2,338,739
Total fund balance	$ 10,463,709	$ 11,379,709	$ 9,890,212	$ 8,315,058	$ 5,894,782
Unrestricted (all nonrestricted) fund balances as a percentage of expenditures (excludes capital-related expenditures)	11.5%	13.1%	8.7%	6.1%	3.1%
Unassigned fund balances as a percentage of expenditures	10.4%	11.3%	6.3%	4.9%	2.5%

(1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements.

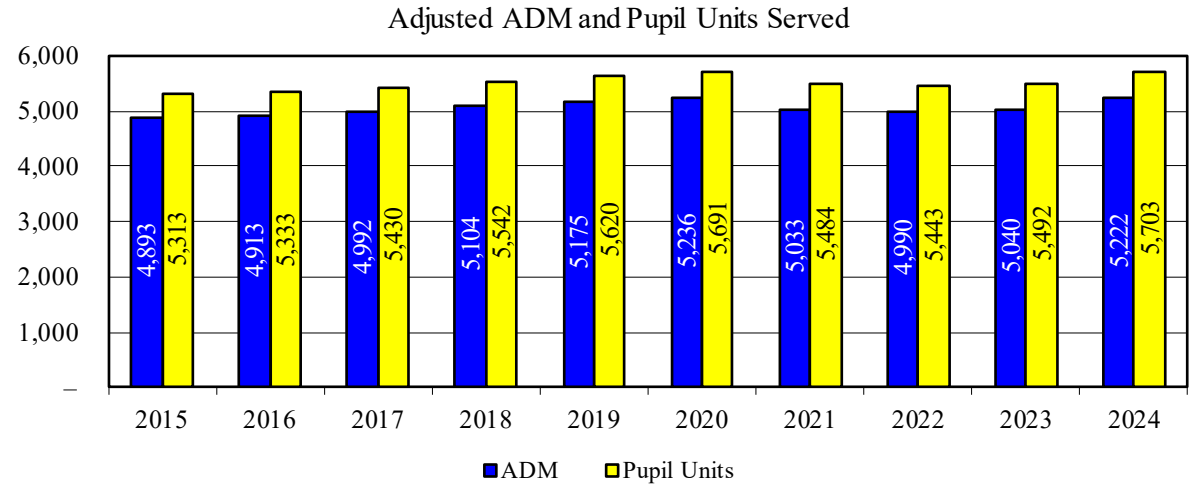
The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

Minimum Unrestricted Fund Balance Policy

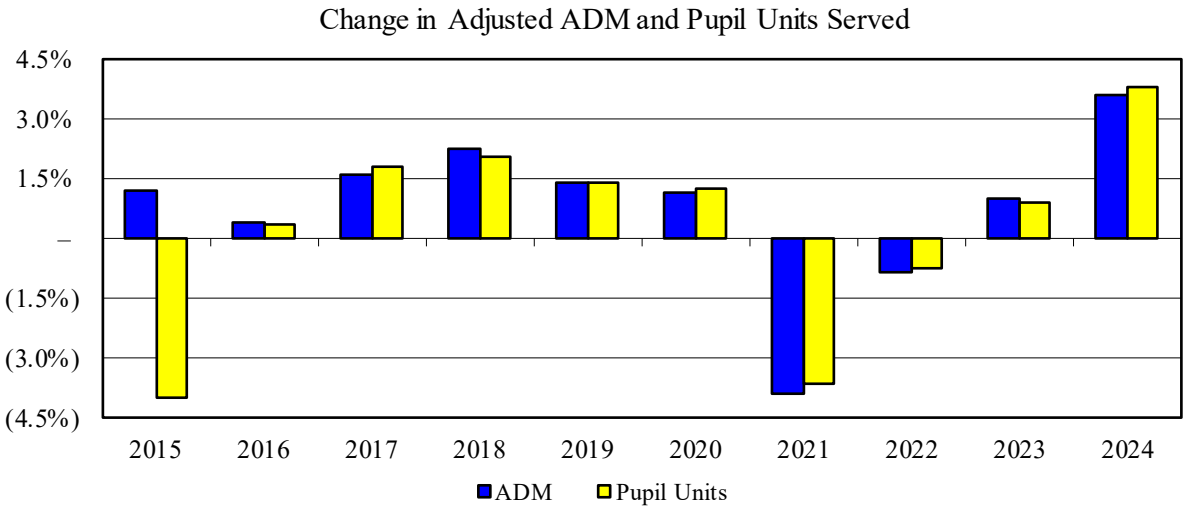
The School Board has formally adopted a fund balance policy that states the School Board will maintain an unrestricted fund balance (all fund balances not restricted) as of June 30 each year at a minimum of 8.0 percent of the District's General Fund operating expenditure budget. At June 30, 2024, the unrestricted fund balance as a percentage of current year expenditures (excluding capital-related expenditures) is 3.1 percent.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph presents the District's adjusted ADM and pupil units served for the past 10 years:



The following graph shows the rate of change in ADM served by the District from year-to-year, along with the change in the resulting pupil units:



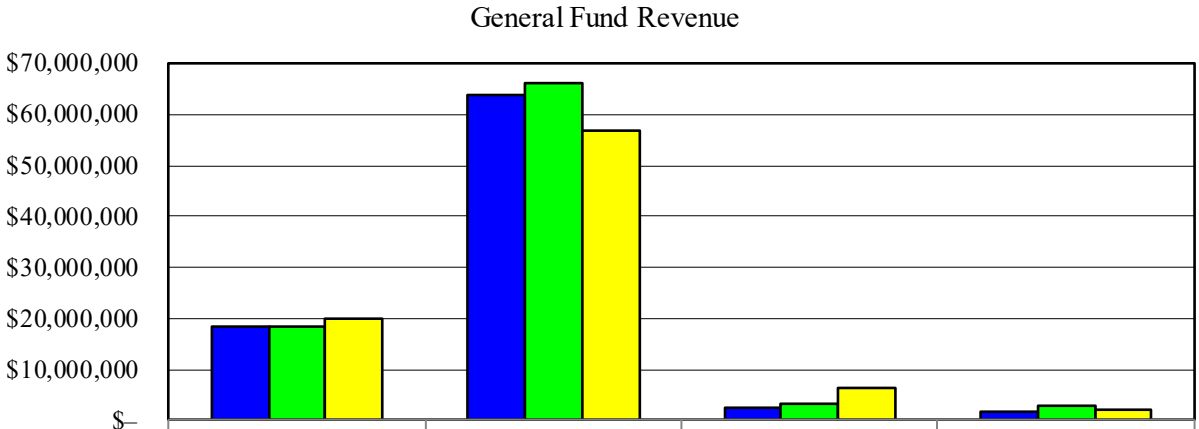
The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments which affect this year's revenue, and also the final adjustments caused by open enrollment gains and losses.

The District served an estimated ADM of 5,222 in 2024, an increase of 182 ADM (or 3.6 percent) from the prior year.

GENERAL FUND REVENUE

The following graph summarizes the District's General Fund revenue for 2024:



	Property Taxes	State Sources	Federal Sources	Other
Budget	$18,220,352	$63,974,791	$2,380,897	$1,580,500
Actual	$18,489,202	$66,105,403	$3,352,377	$2,922,324
Prior Year	$19,813,861	$56,889,660	$6,297,827	$2,059,863

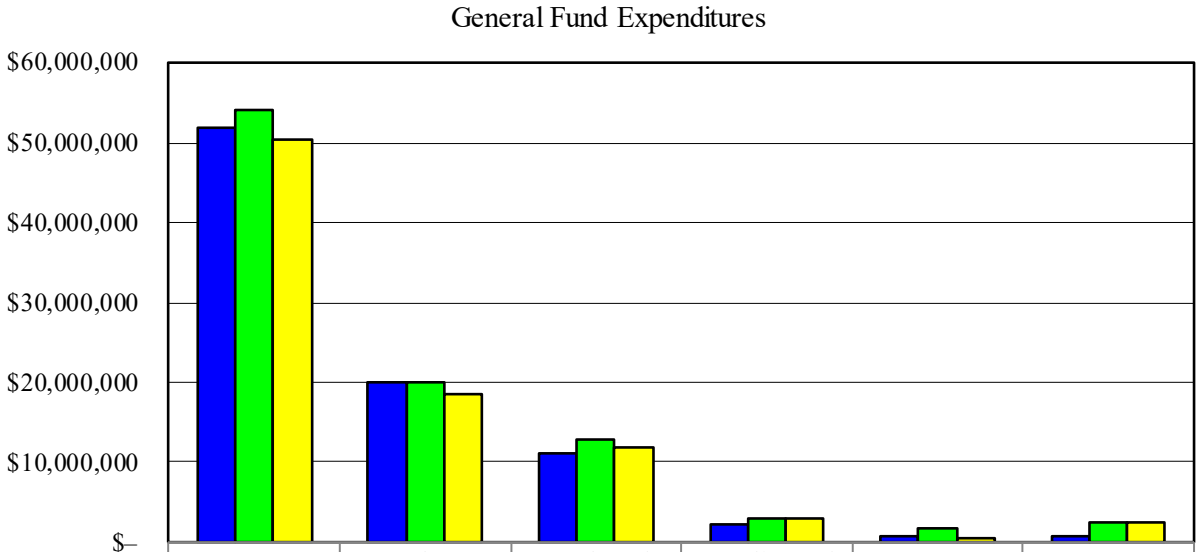
Total General Fund revenues were $90,869,306 for the year ended June 30, 2024, which was $4,712,766 (5.5 percent) over the final budget. Revenue was over budget by $4,712,766, mainly in state sources by $2,130,612 from higher than projected general education aid. Other revenue was higher than budget by $1,403,474, mainly from conservative budgeting and an energy rebate received in the current year not anticipated in the budget. Federal revenues were $971,480 higher than budget, mainly from spending of carryover entitlements were higher than anticipated.

Revenue was higher than the prior year by $5,808,095, mainly the result of higher state aids of $9,215,743. The increase is from state aid revenues, including increases in general education, compensatory, and special education aid. Federal revenue decreased $2,945,450 in federal aid, mainly due to COVID-19-related stimulus grants that were fully spent in the prior year.

The graph above reflects the concentration of state sources (72.7 percent) followed by property taxes (20.3 percent) received to finance General Fund operations.

GENERAL FUND EXPENDITURES

The following graph summarizes the District's General Fund expenditures for 2024:



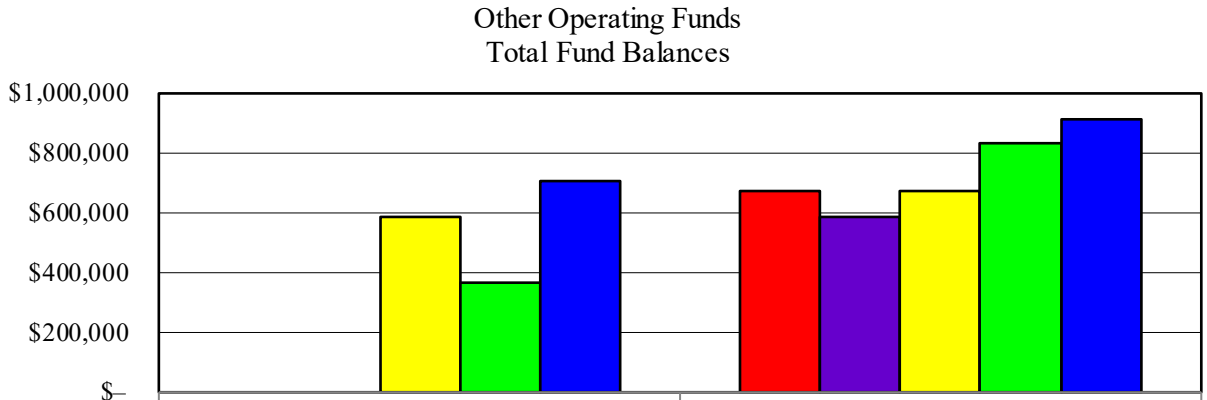
	Salaries	Employee Benefits	Purchased Services	Supplies and Materials	Capital	Other
Budget	$51,838,001	$19,899,479	$11,177,661	$2,146,889	$831,902	$828,303
Actual	$54,120,065	$20,011,827	$12,788,941	$2,962,113	$1,677,937	$2,413,999
Prior Year	$50,403,195	$18,432,708	$11,825,839	$2,990,569	$559,421	$2,482,072

Total General Fund expenditures were $93,974,882 for the year ended June 30, 2024, which was $7,252,647 (8.4 percent) over the final budget. Salaries were over budget by $2,282,064, mainly within the special education and learning and development programs. Purchased services were over budget by $1,611,280, mainly from higher than budgeted transportation costs. Other expenditures were over budget by $1,585,696, including higher than budgeted amounts for debt service, athletics, and pension-related costs. Capital expenditures were higher than budget by $846,035, mainly for a financed purchase. Supplies and materials were higher than budget by $815,224, mainly within regular instructional areas and instructional support services.

Expenditures were $7,281,078 higher than the prior year as salaries and benefits increased $5,295,989 in the current year. Increases were the result of increased staffing, increases in pay rates, and increases in special education programming. Increases in benefits relate to the growth in salaries as well as higher costs of health insurance. Purchased services increased $963,102, mainly in transportation costs. Capital expenditures increased $1,118,516, mainly related to the financed purchase issued in the current year.

OTHER FUNDS OF THE DISTRICT

The following graph shows what is referred to as the other operating funds. The remaining nonoperating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly, due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels is not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.



	Food Service	Community Service
2020	$–	$673,007
2021	$–	$588,576
2022	$584,501	$672,399
2023	$366,256	$831,027
2024	$706,889	$911,190

Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2024 with an increase in fund balance of $340,633, compared to a budgeted increase of $475,170. Food service revenues were $4,661,727, which was over budget by $89,838. Expenditures were $4,321,094, which was over budget by $224,375, mainly in salaries and benefits. The ending fund balance of $706,889 in this fund represents 16.4 percent of current year expenditures.

Revenue in the Food Service Special Revenue Fund increased $1,129,266, mainly in state sources which increased $1,764,047. This increase was from additional program funding provided by the Minnesota Legislature. Expenditures increased $570,388, mainly for supplies and materials.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2024 with a fund balance increase of $80,163, compared to a budgeted decrease of $16,784. Revenues were $5,233,660, which were over budget by $591,009. Tuition and fees were higher than budget by $380,382. Expenditures were $5,153,497, which was over budget by $494,062, mainly in purchased services. The ending fund balance of $911,190 in this fund represents 17.7 percent of current year expenditures.

Revenue in this fund increased $167,451. The increase was mainly in tuition and fees which increased $134,411 and state sources which increased $184,120. This was offset by a decline in federal sources of $192,961. Expenditures increased $245,916, mainly for salaries and benefits.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining and should not become an additional burden on general education funds.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund ended the year with expenditures exceeding revenues, decreasing fund balance by $1,575,806. This was mainly the result of spending down proceeds from previously issued bonds. This fund has a zero fund balance at June 30, 2024.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. At June 30, 2024, the entire fund balance of $1,996,077 is restricted for debt service. It is important to remember that resources of the Debt Service Fund are dedicated to the payment of outstanding debt obligations of the District.

Internal Service Fund

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The District currently maintains one internal service fund. This fund is used to account for the District's self-insured health and dental insurance functions.

Operating revenue and nonoperating revenue for the internal service fund for fiscal 2024 totaled $14,079,141, while operating expenses totaled $15,333,231. Operating expenditures increased $1,571,876, or 11.4 percent, in the current year.

This fund experienced a decline in net position of $1,254,090. The net position for the internal service fund as of June 30, 2024, is $111,901. The ending net position represents 0.7 percent of current year operating expenses.

Post-Employment Benefits Trust Fund

The Post-Employment Benefits Trust Fund is considered a fiduciary fund, where assets are held in trust to finance OPEB payable to former employees of the District. At June 30, 2024, this fund had $4,759,051 held in trust for the payment of future OPEB benefits.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

	June 30,		
	2024	2023	Change
Net position – governmental activities			
Total fund balances – governmental funds	$ 9,508,938	$ 13,507,621	$ (3,998,683)
Total capital assets, net of depreciation/amortization	174,668,602	176,514,098	(1,845,496)
Bonds, premiums, leases, and financed purchases	(138,748,369)	(144,946,926)	6,198,557
Net pension-related obligations	(50,571,112)	(54,351,211)	3,780,099
Severance and compensated absence liabilities	(585,266)	(590,267)	5,001
Net OPEB-related obligations	(6,911,896)	(6,519,223)	(392,673)
Deferred charge on debt refunding	(155,351)	(621,402)	466,051
Other	(1,683,467)	(446,313)	(1,237,154)
Total net position – governmental activities	$ (14,477,921)	$ (17,453,623)	$ 2,975,702
Net position			
Net investment in capital assets	$ 35,764,882	$ 32,521,576	$ 3,243,306
Restricted	4,749,306	4,989,566	(240,260)
Unrestricted	(54,992,109)	(54,964,765)	(27,344)
Total net position	$ (14,477,921)	$ (17,453,623)	$ 2,975,702

Some of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g., Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as vacation payable, severance payable, net pension, and net OPEB liabilities.

The District's increase in net investment in capital assets is due mostly to the relationship between the rate at which the District repays debt, compared to the rate the related assets are being depreciated/amortized. The change in accounting principle also impacted this number. The decrease in restricted net position is mostly related to decreases in net position restricted for long-term facilities maintenance and staff development. The change in unrestricted net position includes the decline in the General Fund balance, the decline in the net position of the internal service fund, and changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years.

GASB STATEMENT NO. 101, *COMPENSATED ABSENCES*

The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used, but not yet paid in cash, or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used, but not yet paid or settled, should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 102, *CERTAIN RISK DISCLOSURES*

State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This new guidance defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosures should include actions by the government to mitigate the risk. The requirements of this statement will improve financial reporting by providing users of financial statements with essential information that currently is not often provided.

The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

This statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following:

- Management's discussion and analysis (MD&A)
- Unusual or infrequent items
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
- Information about major component units in basic financial statements
- Budgetary comparison information
- Financial trends information in the statistical section

The objective of this statement is to improve key components of the financial reporting model to enhance its quality and effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.